

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas Gas)
Service, A Division of ONE Gas, Inc. for) Docket No. 18-KGSG-560-RTS
Adjustment of its Natural Gas Rates in the State)
of Kansas.)

TESTIMONY OF JANET L. BUCHANAN

IN SUPPORT OF THE

SETTLEMENT AGREEMENT

ON BEHALF OF

KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Janet L. Buchanan, and my business address is 7421 W 129th St., Overland Park, KS 66213.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Director of Rates and Regulatory Reporting for Kansas Gas Service ("KGS" or the "Company"), which is a division of ONE Gas, Inc., ("ONE Gas").

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Arts degree and a Master of Arts degree in economics from the University of Kansas. From June 1993 through August 1998 and from May 1999 through August 2011, I worked for the Kansas Corporation Commission ("Commission") in various positions with varying levels of responsibility associated with: examining rates of natural gas, electric and telecommunications utilities; researching current policy issues within these industries; and managing projects. I held positions including Utility Rates Analyst, Senior Research Economist, Managing Research Economist, Telecommunications Economist, Senior Telecommunications Analyst, Senior Managing Research Analyst, Chief of Telecommunications and Chief of Energy Efficiency and Telecommunications. In September 2011, I joined Texas Gas Service Company, a Division of ONE Gas, Inc., as a Manager of Rates and Regulatory Analysis. I was promoted to my current position in October 2017.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes, I have testified before the Commission on numerous occasions.

Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT

SUPERVISION?

A. Yes, it was.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing testimony in support of the Settlement Agreement ("Agreement") between KGS, the Staff of the Kansas Corporation Commission ("Staff"), the Citizens' Utility Ratepayer Board ("CURB"), the Kansas Farm Bureau ("KFB"), the Kansas Corn Growers Association ("KCGA") and WoodRiver Energy, LLC ("WoodRiver") (collectively, the "Parties"), which is being submitted to the Commission for approval.

I will also be providing background information regarding this matter, summarizing the terms of the Agreement, and addressing and applying the Commission standards for review of settlements to the Agreement in this case.

II. BACKGROUND

Q. PLEASE PROVIDE BACKGROUND INFORMATION REGARDING THE COMPANY'S RATE APPLICATION WHICH IS THE SUBJECT OF THE SETTLEMENT AGREEMENT.

A. On June 29, 2018, KGS filed an Application to make certain changes in its rates for natural gas service. The Company's application supported a gross revenue deficiency of \$45.6 million based on a test year ending December 31, 2017, adjusted for known and measurable changes in revenues, operating and maintenance expenses, cost of capital and taxes, and other adjustments. Considering the Gas System Reliability Surcharge ("GSRS") of \$2.9 million, KGS customers would experience a net increase of \$42.7 million. This amount includes the reduction in the federal tax expense that became effective January 1, 2018, as a result of the passage of the Tax Cuts and Jobs Act ("TCJA").

On October 29, 2018, Staff, CURB and WoodRiver filed direct testimony along with supporting schedules and exhibits. On November 1, 2018, KFB and KCGA filed direct testimony along with supporting schedules and exhibits. Staff recommended a revenue requirement increase of \$19,828,862 (\$16,955,576 net of GSRS). CURB recommended a revenue requirement decrease of \$1,860,079 (\$4,733,365 net of GSRS). The testimony of WoodRiver focused on electronic flow metering (“EFM”) and cash-out provisions proposed by the Company. The testimony of KFB and KCGA was focused on the class cost of service and allocations to the Company’s irrigation class of customers. On November 14, 2018, KFB and KCGA filed cross answering testimony in response to Staff and CURB.

On November 19, 2018, KGS filed rebuttal testimony responding to the direct testimony of the Parties. Beginning on November 28, 2018, the Company and the Parties met to begin discussing whether a settlement of the issues could be reached. On November 29, 2018, KGS and the Parties were able to reach a settlement in principle. A final Agreement was reached on November 30, 2018, and a Joint Motion to Approve the Agreement was filed with the Commission on December 3, 2018.

III. TERMS OF THE AGREEMENT

Q. ARE YOU FAMILIAR WITH THE TERMS OF THE AGREEMENT?

A. Yes. I was personally involved in negotiating the terms of the Agreement. The Agreement is a “black box” settlement with no specification of rate base, rate of return and expense levels, except as specifically provided below:

- (1) KGS will receive a revenue increase of \$21.5 million;
- (2) A carrying charge of 9.0984% will be established for GSRS purposes;
- (3) The amortization of excess deferred income taxes (“EDIT”) created with the implementation of the TCJA will be included in base rates and amortized based on

the average rate assumption method (“ARAM”) for protected and a 5-year period for unprotected;

- (4) KGS will adopt new depreciation rates, as recommended by Staff witness Ms. Roxie McCullar;
- (5) The pension and other post-employment benefit (“OPEB”) expense levels established in this proceeding are \$9,020,003 and \$458,420 respectively;
- (6) The amortization period for pension and OPEB established in this proceeding is three years;
- (7) The amortization period for the Company’s actual rate case expense is three years;
- (8) The amortization level for deferred manufactured gas plant (“MGP”) expense established in this proceeding is \$97,707 per year as allowed under the order issued in Docket No. 17-KGSG-455-ACT;
- (9) Ad Valorem expense included in base rates is \$21,144,627;
- (10) The residential service charge will be \$18.70 per month;
- (11) The EFM charge will be \$17.40 per month;
- (12) The Weather Normalization Adjustment Rider (“WNAR”) will be modified to be applicable to small transport customers;
- (13) The changes to Miscellaneous Service Charges as set out in the testimony of KGS witness Mr. Justin Clements are accepted;
- (14) A cyber security tracker as set out in the testimony of Staff witness Mr. Justin Grady will be implemented; and
- (15) KGS will withdraw, without prejudice its proposal to: implement a Revenue Normalization Adjustment mechanism; share pension expense savings; implement a depreciation tracker; move Brehm Storage costs to the cost of gas rider; recover Gas Technology Institute research funding from customers; modify EFM requirements; and modify cash out provisions.

Additionally, the Parties agreed to preserve for hearing the issue concerning whether KGS should be allowed to offset the tax savings resulting from the TCJA, which have been

accrued as a regulatory liability, with KGS's other components of its cost of service.¹

Q. DOES THE AGREEMENT PROVIDE FOR A REASONABLE RESOLUTION TO ISSUES IN THIS PROCEEDING?

A. Yes, it does. The Parties had differing opinions about certain issues raised in this case, and yet, were able to negotiate a compromise that satisfied each Party. This result was achieved, in part, by agreeing to a revenue requirement without explicitly stating the resulting conclusions on every item in dispute. Where it was necessary to specifically state the settlement reached by the Parties on a particular item for setting future rates or for other reasons, the Parties did so.

IV. COMMISSION STANDARDS FOR REVIEW OF AGREEMENT

Q. ARE YOU FAMILIAR WITH THE FACTORS THE COMMISSION CONSIDERS WHEN REVIEWING A PROPOSED SETTLEMENT AGREEMENT?

A. Yes, I am. I understand there are five factors the Commission considers when reviewing a proposed settlement agreement, and I have reviewed several of the Commission's orders since the Commission adopted its five-factor test in 2008.

Q. CAN YOU IDENTIFY THOSE FIVE FACTORS?

A. The five factors the Commission considers when reviewing proposed settlement agreements are as follows:

(1) Whether there was an opportunity for the opposing party to be heard on their reasons for opposition to the Agreement;

(2) Whether the Agreement is supported by substantial competent evidence;

¹ Revenue has been accrued as a regulatory liability pursuant to the Settlement Agreement regarding KGS, which was approved by the Commission in Docket No. 18-GIMX-248-GIV ("248 Docket"). The Settlement Agreement also provided that issue of whether KGS would be allowed to offset the tax savings with other components of its cost of service would be addressed in this proceeding.

- (3) Whether the Agreement conforms with applicable law;
- (4) Whether the Agreement results in just and reasonable rates; and
- (5) Whether the results of the Agreement are in the public interest.

Q. WHO ARE THE PARTIES TO THIS DOCKET?

A. As stated above, the parties to this proceeding include Staff, CURB, KFB, KCGA and WoodRiver.

Q. ARE THERE ANY ISSUES NOT ADDRESSED IN THE AGREEMENT THAT ANY OF THE PARTIES WISH TO LITIGATE?

A. The Agreement specifies that the parties will litigate the issue of whether KGS should be allowed to offset the tax savings amount accrued as a regulatory liability with KGS's other components of its cost of service. All other issues are resolved under the Agreement.

Q. WHO PARTICIPATED IN THE SETTLEMENT NEGOTIATIONS IN THIS DOCKET?

A. Representatives from KGS, Staff, CURB, KFB, KCGA, and WoodRiver participated in the settlement negotiations. The Parties met at the Commission on November 28 and 29, 2018, to discuss the issues in this docket and the possibility for settlement of some or all issues. A settlement of all issues, except whether KGS should be allowed to offset the tax savings amount accrued as a regulatory liability with KGS's other components of its cost of service, which has been reserved for hearing, was reached by the Parties. The Agreement was filed with the Commission on December 3, 2018.

Q. DID ALL PARTIES WHO WILL BE IMPACTED BY THE AGREEMENT HAVE AN OPPORTUNITY TO BE HEARD WITH RESPECT TO THE TERMS OF THE AGREEMENT?

A. Yes. All parties impacted by the terms contained in the Agreement participated in the settlement discussions.

Q. IS THE SETTLEMENT AGREEMENT AMONG THE PARTIES IN CONFORMITY WITH THE FACTORS THE COMMISSION USES TO REVIEW SETTLEMENTS?

A. Yes. Although the factors established by the Commission have a legal application, it is my understanding all the parties agree that the established standards have been met. A legal analysis included in the Joint Motion addresses these points.

Q. PLEASE EXPLAIN THE AGREEMENT REACHED BY THE PARTIES WHICH ALLOWS KGS TO SUBMIT ITS REQUEST TO OFFSET THE TAX SAVINGS AMOUNTS ACCRUED AS A REGULATORY LIABILITY WITH KGS'S OTHER COST OF SERVICE COMPONENTS TO THE COMMISSION FOR A HEARING AND DETERMINATION?

A. Under the Agreement, the Parties are allowed to present their pre-filed testimony, which is currently on file with the Commission, related to the question of whether KGS should be allowed to offset the tax savings amounts accrued as a regulatory liability with KGS's other cost of service components at the hearing and each party will be allowed to cross-examine the witnesses who are presenting that testimony. I am the KGS witness who addressed this issue in my pre-filed direct and rebuttal testimony. Under the Agreement, the Parties have also agreed that they should be allowed to file post-hearing briefs on this one issue.

Additionally, the Parties agreed to bifurcate this issue from the other issues presented in this rate case. The Commission's decision regarding the bifurcated issue will have no impact of the Agreement. This means the miscellaneous provisions contained in Section IV of the Agreement are not be applicable to this bifurcated issue. This also means that the

decision reached by the Commission on the bifurcated issue will have no impact on the Commission's decision regarding the Agreement. If the Commission approves the Agreement in its entirety without material modification, the Parties have agreed to be bound by its terms and the Commission's order incorporating its terms as to all issues except the bifurcated issue and will not appeal the Commission's order on those issues. Under the Agreement, any Party would have the right to appeal the Commission's decision as it relates to the bifurcated issue.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

VERIFICATION OF JANET L. BUCHANAN

STATE OF KANSAS, COUNTY OF JOHNSON, ss:

I, Janet L. Buchanan, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing Testimony in Support of the Settlement Agreement; that I have read the testimony and am familiar with its contents; and that the facts set forth therein are true and correct.



Janet L. Buchanan

SUBSCRIBED AND SWORN to before me this 4th day of December 2018.



Notary Public


Appointment/Commission Expires: 06/05/2022



VERIFICATION

STATE OF KANSAS)
)
COUNTY OF JOHNSON)

I, Judy Jenkins Hitchye, of lawful age, being first duly sworn upon oath, states as follows: I am a Managing Attorney for Kansas Gas Service, a Division of ONE Gas, Inc. I have read the above *Testimony of Janet L. Buchanan in Support of the Settlement Agreement* and all the statements therein are true to the best of my knowledge, information and belief.


Judy Jenkins Hitchye No. 23300

Affiant

SUBSCRIBED AND SWORN to before me on 12/4/18.


Notary public

My Appointment Expires:

06/05/2022



CERTIFICATE OF SERVICE

I, Judy Jenkins Hitchye, hereby certify that a copy of the above and foregoing *Testimony of Janet L. Buchanan in Support of the Settlement Agreement* was forwarded this 4th day of December, 2018, addressed to:

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